

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 CIAE-00

DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 AID-05 EB-07 COME-00 TRSE-00 OMB-01

OPIC-03 /067 W

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O 272122Z AUG 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 6510

C O N F I D E N T I A L LIMA 7033

EO 11652: GDS

TAGS: EINV, EMIN, PFOR, PE, US

SUBJ: MARCONA EXPROPRIATION - NEGOTIATING TACTICS

REF: STATE 203515

1. AS STATED LIMA 7005, EMBASSY BELIEVES THAT OF THREE ALTERNATIVES SET FORTH IN PARA SIX REFTEL, (A) IS PREFERRED, (B) IS ACCEPTABLE, BUT UP TO MARCONA, AND (C) IS PREMATURE. OUR COMMENTS ON ARGUMENTATION CONTAINED REFTEL ARE AS FOLLOWS.

2. WE NOTE THAT ONE REASON ADVANCED FOR SENDING A USG-DESIGNATED REPRESENTATIVE IS THAT HE WOULD HAVE ACCESS TO VELASCO AND COULD MAKE CLEAR TO GOP AT THAT LEVEL THE DIMENSIONS OF SETTLEMENT AND CONSEQUENCES OF NOT SETTLING. WE THINK THIS IS UNNECESSARY AT THIS STAGE AND COULD BE RESENTED AS AN UNDUE ELEMENT OF PRESSURE. WE KNOW THAT VELASCO IS AWARE OF THIS PROBLEM AND IS CONCERNED ABOUT IT; WE HAVE BEEN TOLD AS MUCH BY, AMONG OTHERS, FOREIGN MINISTER DE LA FLOR AND FORMER AMBASSADOR TO U.S. BERCKEMEYER (LIMA 6988). SUGGESTION THAT EMISSARY COULD OBTAIN AGREEMENT FROM VELASCO ON PAYMENT AND ITS AMOUNT IS NOT REALISTIC. VELASCO IS UNFAMILIAR WITH DETAILS AND WOULD HAVE TO DEPEND ON THOSE BELOW HIM, AS IN CASE OF GREENE SETTLEMENT.

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3. RE POSSIBLE ADVANTAGES OF SUGGESTED APPROACH OUTLINED
PARAGRAPH 4 REFTEL: (A) WE ALREADY HAVE VELASCO'S ATTENTION
AND THAT OF TOP SENIOR GOP OFFICIALS, AND SOME ARE VERY
WORRIED. WHILE EFFECT OF IMPASSE ON U.S./PERU RELATIONS MIGHT
NOT BE PARTICULARLY PERSUASIVE, POSSIBLE OVERALL FINANCIAL
CONSEQUENCES ARE A SOURCE OF DEEP CONCERN, PARTICULARLY AS
PERU'S ECONOMIC OUTLOOK FOR NEXT TWO YEARS IS NOT BRIGHT.
(B) VELASCO AND OTHERS ARE CONCERNED THAT ANY SETTLEMENT NOT
RISK LOSS OF FACE OR APPEAR TO BE A RETREAT. GOP COULD NOT
ACCEPT SITUATION IN WHICH VELASCO APPEARED TO BOW BEFORE
PRESSURE FROM USG-DESIGNATED NEGOTIATOR. MOREOVER, ANY
SETTLEMENT WILL HAVE TO BE PROOF AGAINST LEFT-WING INTRANSI-
GENCE; A DEAL WITH A NEGOTIATOR MIGHT NOT MEET THIS CRITERION.
(C) SUGGESTED APPROACH PROBABLY WOULD ELICIT A YES OR NO
ANSWER, BUT THE ANSWER MIGHT BE NO. (D) WE UNDERSTAND AND
ACCEPT THIS ARGUMENT, ALTHOUGH WE THINK THAT CONCERN ABOUT
OVERALL ACCESS TO IFI, U.S. AND PRIVATE BANKING CREDITS IS
EQUALLY IF NOT MORE WORRISOME FOR GOP AND WILL PERSIST EVEN
IF HIERROPERU DOES LINE UP A FEW BUYERS. ALSO, THOSE WHO
UNDERSTAND WORLD METAL MARKETS ARE WELL AWARE THAT IN SHORT
RUN HIERROPERU COULD PROBABLY NOT FIND BUYERS FOR ANYWHERE
NEAR THE TEN MILLION TONS MARKETING ANNUALLY BY MARCONA.
(E) WE DO NOT THINK THAT GOP EXPECTS AN EMISSARY, AT LEAST
NOT AT THIS POINT. MARCONA SHOULD ALSO BEAR IN MIND THAT
IRWIN'S MISSION WAS A FAILURE AND THAT THE GREENE NEGOTIATION
TOOK MANY MONTHS.

4. WITH RESPECT TO POSSIBLE DISADVANTAGES SUMMARIZED IN
PARAGRAPH 5, WE THINK THESE POINTS ARE WELL TAKEN. WITH
RESPECT TO POINT (D), HOWEVER, WE WONDER HOW DEEPLY WE NEED
BECOME INVOLVED IN MERITS OF CASE. FOR EXAMPLE, ALTHOUGH
FOUR-PERCENT COMMISSION PERHAPS HIGH AND MARCONA MADE PROFIT
ON SHIPPING WHILE REPORTING LOSSES ON SALES, THERE ARE MANY
OFFSETTING ELEMENTS, SUCH AS 90-CENT-PER-TON CHARGE LEVIED BY
GOP ON EXPORTS, HIGH WAGE SETTLEMENTS FORCED ON MARCONA BY
GOP, HEAVY CHARGES BY PETROPERU FOR OIL USED IN PELLET PRO-
CESSING, DISCOUNT PRICE AT WHICH PELLETS WERE SOLD TO
SIDERPERU, ETC. ESSENTIAL POINT IS THAT WHEN TWO PARTIES
HAVE DIFFERENCES IN INTERPRETATION OF CONTRACT, THESE SHOULD
BE DISCUSSED AND RESOLVED AS THE CONTRACT ITSELF PROVIDES.
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REGARDLESS OF THE MERITS, USG HAS VERY LEGITIMATE GROUND
FOR PROTEST IN MARCONA CASE IN WHICH GOP HAS CHOSEN
CONFISCATION WITHOUT GIVING MARCONA AN OPPORTUNITY TO DISCUSS
AND NEGOTIATE AS CALLED FOR IN MARCONA'S CONTRACTS WITH GOP.

5. WE HAVE NO SUGGESTIONS AS TO PERSON WHO MIGHT BE SUITABLE
AS THIRD PARTY UNDER SCENARIO (B) OR (C). IF EITHER OF THESE
TWO ALTERNATIVES IS CHOSEN, WE THINK IMPORTANT ELEMENT WOULD

BE SPEED WITH WHICH HE CAN RELINQUISH HIS PRESENT ACTIVITIES, BE ADEQUATELY BRIEFED, AND ARRIVE IN LIMA. HE SHOULD ALSO HAVE ADEQUATE TIME TO DEVOTE TO A DISCUSSION WHICH WILL NECESSARILY BE COMPLICATED. ABOVE ALL, HE SHOULD BE ACCOMPANIED BY EXPERTS SUCH AS COMPTON IN MINE OPERATIONS, SALES, AND SHIPPING.

6. IN ANY CASE, MANY IN THE GOP AS WELL AS THE LOCAL MARCONA REPRESENTATIVE KEHOE (SEE SEPTTEL) EXPECT MARCONA OFFICIAL (PROBABLY COMPTON) TO TRAVEL TO PERU SOMETIME NEXT WEEK.
DEAN

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